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OGI International Financial Situation Report #22
ALA/SAD/R/[redacted] 25X1
16 November 1983

ARGENTINA

Argentina remains in a de facto payments moratorium using strict exchange controls to husband reserves which are reportedly down to less than $200 million. [redacted] 25X1

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The decisive win in the 30 October presidential elections by Radical Civic Union candidate Raul Alfonsin could speed the start of informal discussions with international lenders but serious talks may be delayed for two to three months. According to Embassy reports, the president-elect and the economic team will need the extra time to develop a consistent

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set of economic policies which will be presented to the IMF before seeking commercial bank approval. We expect, moreover, that Alfonsin's plans to reactivate the economy through spending for housing, private construction, wage increases, subsidized interest rates, and an antipoverty program will collide with IMF demands for an austere fiscal deficit, delaying early agreement on a new standby program which is a prerequisite to signficant progress with bank rescheduling efforts. [redacted] 25X1

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BRAZIL

The Brazilian government gained congressional approval of a new compromise wage law last week, setting the stage for a decision by the IMF on renewed financial backing. Passage of the law, which replaces a more stringent wage restraint measure defeated by Congress last month, was achieved through a coalition of support by the ruling party and a small labor party. The new law will permit wage hikes averaging about 87 percent of the consumer price index, compared with an 80 percent ceiling stipulated both in the previous wage law and Brazil's revised letter of intent submitted to the IMF in September. [redacted] 25X1

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The IMF executive board plans to render a decision on Brazil's new draft stabilization agreement on 18 November but may have difficulty holding to that schedule. Notwithstanding the government's recent achievements, additional adjustments to the stabilization program probably will be necessary. [redacted] 25X1

[redacted] the press indicate that the IMF will likely 25X1

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approve the milder compromise wage law but require that Brazil implement stricter complementary measures in other areas.

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[redacted] Also, Brazil's inflation 25X1 targets probably will have to be adjusted and the rest of the program that hinges on existing inflation assumptions will have to be recalculated. It now appears that Brazil's end-of-1983 inflation rate will exceed 200 percent, far above the IMF's targetted 160 percent. [redacted] 25X1

The sluggish progress shown by Brazil's international creditors in making commitments to a new $11 billion financial rescue package is further complicating plans for an imminent IMF approval. [redacted] the 25X1 IMF has stipulated that at least 90 percent of the $6.5 billion Brazil is seeking from foreign commercial banks must be committed by 15 November if it is to rule favorably on the Brazilian program at the 18 November meeting. The press reports that only about 60 percent had been committed by this past weekend and that many creditors are reluctant to participate in the rescue package. Some foreign banks [redacted] 25X1 [redacted] are writing off their Brazilian loans, 25X1 making it difficult to justify new lending. Others [redacted] 25X1 [redacted] have deferred new commitments until they are assured 25X1 their lending shares are equitable relative to their current

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If the IMF finds the latest wage law and other austerity measures inadequate and the banks refuse new loans, Brasilia will have no choice but to declare a full debt moratorium, [redacted] 25X1 We believe some signs of Brazilian preparation for this already are appearing, although available information is sketchy and inconclusive.

-- Since mid-August, when [redacted] 25X1 [redacted] 25X1 oil stocks had fallen to less than 30 days supply, Brazilian authorities claim they have rebuilt reserves to 85 days supply. This summer, Brazilian governmemt officials had indicated that depleted petroleum stocks were a key reason for rejecting the debt moratorium option.

-- Brazil's foreign exchange reserves appear to be rising substantially from a low of $2.1 billion at the end of July, [redacted] 25X1 [redacted] 25X1 Brazil apparently has chosen to use its substantially strengthened trade surplus to bolster

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its reserves position--some $3.0 billion at the end of September and presumably higher since--at the expense of making interest payments on debt. 25X1

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ECUADOR

Ecuador has obtained some new money, but its financial position remains strained. The US Embassy reports that Quito's creditor banks recently disbursed $215 million of the new $431 million credit line as part of the 1983 IMF financial rescue agreement. These funds, however, are not be enough to eliminate arrearages--now an estimated $450-$500 million--and meet current debt servicing obligations. Meanwhile, an IMF mission is visiting the country this month to complete the performance evaluation report and to set targets for 1984. According to US Embassy reports, Quito has succeeded in limiting the 1983 public sector deficit to 4.2 percent of GDP as programmed and has also implemented the required interest rate and trade measures. Inflation--running at 60 percent, compared to 25 percent in 1982--remains a problem because of wage increases and removal of price controls and subsidies. Unless the IMF grants a waiver, Quito's failure to meet the 35 percent inflation target may jeopardize disbursement of the remaining $40-$50 million of the $170 million IMF standby loan precipitating renewed difficulties for the rescue program. To gain additional financial breathing room, President Hurtado has already announced Ecuador's intentions to renegotiate its 1984 debt at terms similar to those of the 1983 debt rescheduling agreement. 25X1

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VENEZUELA

Caracas is still encountering difficulty in settling past due payments on the private debt. According to press reports, the government authorized only $25 million for repayment of private debt interest arrears against a commitment to bankers of clearing a minimum of $125 million by the end of October. Despite lackluster progress, foreign lenders in late October granted Caracas another 90-day extension on the repayment of public debt principal. According to the US Embassy, the creditors conceded that it is unlikely that any real progress would be made in resolving this dispute with the Herrera administration. Rather than forcing a confrontation, they opted to wait until after the 4 December national elections to conduct negotiations with the new government. [redacted] 25X1

Finance Minister Arturo Sosa has said, [redacted] 25X1 that the IMF 25X1 negotiations are not going well. Sosa claims that it is now politically impossible to accede to the demands of the Fund in the rescheduling negotiations with the foreign creditors. We also believe that Caracas now perceives IMF financial assistance as unnecessary this year. Venezuela does not require any new money, according to Sosa because imports have been slashed by nearly 75 percent since last February, strict exchange controls imposed, and export earnings stabilized. We also believe Caracas feels self-assured by growing foreign

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exchange reserves which have risen to a little over $11 billion in recent weeks. [redacted] 25X1

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Any split among bankers will make acceptance of a Fund program in the next six months more unlikely by the new administration. In the closing weeks of the national elections, leading presidential hopeful, Jaime Lusinchi and his Accion Democratica party, have stiffened their resolve not to accept any IMF program. Embassy reports of recent conversations with a senior economic advisor to Lusinchi,

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emphasize that Lusinchi will not accept an economic austerity package externally imposed by the IMF but intends to resolve the economic problems on his own. He has only promised to form a committee soon after the elections to conduct talks with the Fund. [redacted] 25X1

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